

CITY OF KIRKVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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City of Kirkville

Officials

<u>Name</u>	<u>Title</u> (Before January, 2004)	<u>Term Expires</u>
Emery Troxel	Mayor	January 1, 2004
George Fox	Council Member	January 1, 2004
Tim Johnson	Council Member	January 1, 2004
Bryan King	Council Member	January 1, 2004
Mike Long	Council Member	January 1, 2004
Douglas Richardson	Council Member	January 1, 2004
Patricia Waggoner	City Clerk/Treasurer	January 1, 2004
Tom Kintigh	Attorney	January 1, 2004
(After January, 2004)		
Jesse Fridley, Sr.	Mayor	January 1, 2006
Dennis Currier	Council Member	January 1, 2006
Larry Miller	Council Member	January 1, 2006
Shawn Smith	Council Member	January 1, 2006
Emery Troxel	Council Member	January 1, 2006
John Vannes	Council Member	January 1, 2006
Patricia Waggoner	City Clerk/Treasurer	January 1, 2006
Tom Kintigh	Attorney	January 1, 2006

City of Kirkville

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kirkville, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Kirkville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kirkville as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2005 on our consideration of the City of Kirkville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Kirkville, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kirkville's basic financial statements. Other supplemental information included in Schedule 1, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

June 1, 2005

Basic Financial Statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(2,164)	-	(2,164)
593	-	593
(3,240)	-	(3,240)
(17,090)	-	(17,090)
(21,901)	-	(21,901)
-	1,095	1,095
-	1,095	1,095
(21,901)	1,095	(20,806)
12,788	-	12,788
16,578	-	16,578
369	9	378
4,143	-	4,143
200	-	200
34,078	9	34,087
12,177	1,104	13,281
52,905	4,178	57,083
\$ 65,082	5,282	70,364
\$ 29,570	-	29,570
26,010	-	26,010
9,502	5,282	14,784
\$ 65,082	5,282	70,364

City of Kirkville

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			Other Nonmajor Governmental Fund -		
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Total	
Receipts:						
Property tax	\$ 12,400	-	-	388	12,788	
Other city tax	-	-	16,578	-	16,578	
Licenses and permits	160	-	-	-	160	
Use of money and property	619	-	-	-	619	
Intergovernmental	-	17,824	-	-	17,824	
Miscellaneous	4,143	-	-	-	4,143	
Total receipts	17,322	17,824	16,578	388	52,112	
Disbursements:						
Operating:						
Public safety	2,164	-	-	-	2,164	
Public works	909	16,295	-	27	17,231	
Culture and recreation	3,240	-	-	-	3,240	
General government	16,859	-	-	641	17,500	
Total disbursements	23,172	16,295	-	668	40,135	
Excess (deficiency) of receipts over (under) disbursements	(5,850)	1,529	16,578	(280)	11,977	
Other financing sources (uses):						
Sale of capital assets	200	-	-	-	200	
Operating transfers in	4,000	-	-	100	4,100	
Operating transfers out	(100)	-	(4,000)	-	(4,100)	
Total other financing sources (uses)	4,100	-	(4,000)	100	200	
Net change in cash balances	(1,750)	1,529	12,578	(180)	12,177	
Cash balances beginning of year	11,252	28,041	13,382	230	52,905	
Cash balances end of year	\$ 9,502	29,570	25,960	50	65,082	
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 9,502	-	-	-	9,502	
Special revenue funds	-	29,570	25,960	50	55,580	
Total cash basis fund balances	\$ 9,502	29,570	25,960	50	65,082	

See notes to financial statements.

City of Kirkville

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Fund Balances
Proprietary Fund

As of and for the year ended June 30, 2004

	<u>Solid Waste</u>
Operating receipts:	
Charges for service	\$ 9,503
Total operating receipts	<u>9,503</u>
Operating disbursements:	
Business type activities	<u>8,408</u>
Total operating disbursements	<u>8,408</u>
Excess of operating receipts over operating disbursements	<u>1,095</u>
Non-operating receipts:	
Interest on investments	<u>9</u>
Total non-operating receipts	<u>9</u>
Excess of receipts over disbursements	1,104
Cash balances beginning of year	<u>4,178</u>
Cash balances end of year	<u><u>\$ 5,282</u></u>
Cash Basis Fund Balances	
Unreserved	<u>\$ 5,282</u>
Total cash basis fund balances	<u><u>\$ 5,282</u></u>

See notes to financial statements.

City of Kirkville

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Kirkville is a political subdivision of the State of Iowa located in Wapello County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general governmental services. The City also provides solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Kirkville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The city has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Area XV Regional Planning Commission, Wapello County Assessor's Conference Board and the Wapello County Joint E-911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and related disbursements.

The City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation of the City's solid waste program.

C. Measurement Focus and Basis of Accounting

The City of Kirkville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and general government.

(2) Cash and Pooled Investments

Because there was no maximum deposit resolution, it is unclear if the City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$71, equal to the required contributions for the year.

(4) Compensated Absences

City employees do not earn vacation, holiday, or compensatory leave hours. Instead, city employees are only paid based on hours actually worked.

(5) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Public Safety and General Government functions exceeded the amounts budgeted.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue: Local Option Sales Tax	\$4,000
Special Revenue: Employee Benefits	General	<u>100</u>
Total		<u>\$4,100</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$11,377 during the year ended June 30, 2004.

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Non major funds are presented in total in one column. The government-wide financial statement reports the City’s governmental and business type activities.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

City of Kirkville

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net	Original Budgeted Amounts	Final to Net Variance
Receipts:					
Property tax	12,788	-	12,788	12,166	622
Other city tax	16,578	-	16,578	13,030	3,548
Licenses and permits	160	-	160	75	85
Use of money and property	619	9	628	500	128
Intergovernmental	17,824	-	17,824	16,900	924
Charge for service	-	9,503	9,503	11,700	(2,197)
Miscellaneous	4,143	-	4,143	1,500	2,643
Total receipts	52,112	9,512	61,624	55,871	5,753
Disbursements:					
Public safety	2,164	-	2,164	1,300	(864)
Public works	17,231	-	17,231	19,700	2,469
Culture and recreation	3,240	-	3,240	3,500	260
General government	17,500	-	17,500	17,000	(500)
Business type activities	-	8,408	8,408	10,000	1,592
Total disbursements	40,135	8,408	48,543	51,500	2,957
Excess of receipts over disbursements	11,977	1,104	13,081	4,371	8,710
Other financing sources, net	200	-	200	-	200
Excess of receipts and other financing sources over disbursements and other financing uses	12,177	1,104	13,281	4,371	8,910
Balances beginning of year	52,905	4,178	57,083	31,986	25,097
Balances end of year	\$ 65,082	5,282	70,364	36,357	34,007

See accompanying independent auditor's report.

City of Kirkville

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and general government functions.

Other Supplementary Information

City of Kirkville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

Schedule 1

For the Last Year

	<u>2004</u>
Receipts:	
Property tax	\$ 12,788
Other city tax	16,578
Licenses and permits	160
Use of money and property	619
Intergovernmental	17,824
Miscellaneous	<u>4,143</u>
Total	<u>\$ 52,112</u>
Disbursements:	
Operating:	
Public safety	\$ 2,164
Public works	17,231
Community and economic development	3,240
General government	<u>17,500</u>
Total	<u>\$ 40,135</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

(515) 277-3077

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Kirkville, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated June 1, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Kirkville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported under Government Auditing Standards. In addition, we noted certain immaterial instances of non-compliance that are described in part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kirkville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Kirkville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-D-04 through I-H-04 are material weaknesses.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Kirkville and other parties to whom the City of Kirkville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kirkville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

June 1, 2005

City of Kirksville

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

I-A-04 Community Event – The City hosted an event for visitors in the community. Based on an agreement with a vendor, the City was paid \$2,775 in cash, according to the vendor records. However, the City only deposited \$2,454 to the bank account in relation to this event. City personnel indicated that the difference was used to pay, by cash, expenses incurred in relation to this event. City personnel were unable to determine which expenses were paid by cash. In addition, the City sold t-shirts at this event. However, a reconciliation of t-shirts bought, sold and money collected from this activity was not performed.

Recommendation – The City implement procedures to ensure all monies collected are deposited to the bank account, all disbursements are made by check, and that records are kept regarding merchandise bought, sold, and monies collected.

Response – We will implement this recommendation in the future.

Conclusion – Response accepted.

I-B-04 Cashed Check – In July 2003, the City wrote a \$908.50 check from one City bank account to the other City bank account. This check was not deposited to the City bank account, instead it was actually cashed by a vendor, and this situation was unknown by the City until we contacted the bank and the bank verified this. As explained below, this was allowed to occur and not be detected by the City because the accounting records maintained by the City are inadequate.

Recommendation – The City discuss this issue with the City Attorney and the bank in question.

Response – We will discuss this with the City Attorney and bank in question.

Conclusion – Response accepted.

I-C-04 Local Option Sales Tax – The resolution for the local option sales tax requires that the sales taxes collected be used to pay costs incurred for the streets and park. During the fiscal year, the City transferred \$4,000 from the Local Option Sales Tax Fund to the General Fund for expenses initially paid by the General Fund. However, upon further review, City personnel were unable to identify at least \$4,000 of street and park expenses initially paid for by the General Fund. As a result, the City may not be properly spending the sales tax monies for authorized purposes.

Recommendation – The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – We will review this, and take action as necessary

Conclusion – Response accepted.

City of Kirkville

Schedule of Findings

Year ended June 30, 2004

REPORTABLE CONDITIONS:

- I-D-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The majority of the accounting work is done by one individual.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-E-04 Receipts – During our testing, we noted that receipts were not always timely deposited to the bank. In some cases, receipts were only deposited once per month. In addition, cash is sometimes mailed to the bank.

Recommendation - Receipts should be deposited more timely, preferably daily. In addition, the City should not mail cash to the bank.

Response – We will work on more timely deposits.

Conclusion – Response accepted.

- I-F-04 Financial Records - The financial records maintained by the City are inaccurate. The ending balances on the City Treasurer's report, which is given to the City Council, does not reconcile to the bank reconciliation. The annual financial report submitted to the State of Iowa was incorrect. The street report submitted to the Department of Transportation was incorrect.

Recommendation – The City implement procedures to ensure the financial records are accurate, agree to the bank reconciliation, and that the reports submitted to the State of Iowa agree to the accounting records.

Response – We now believe that since there was a change in personnel, these records are now accurate.

Recommendation – Response accepted.

- I-G-04 Employee Benefits – Monies paid out of the Employee Benefits Fund consist of the employee withholdings and employer payroll taxes. According to State of Iowa requirements, the purpose of this fund is to pay only the employer's share of payroll taxes.

Recommendation – The City implement procedures to ensure only the employer's share of the payroll taxes are paid from this fund.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Kirksville

Schedule of Findings

Year ended June 30, 2004

- I-H-04 Reconciliation of Solid Waste Billings, Collections, Delinquencies and Solid Waste Procedures – Solid waste billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

There are no written records regarding the approval of new customers added or old customers leaving the system. In addition, there is no written approval regarding the write off of delinquent accounts.

Recommendation – A listing of delinquent accounts should be prepared on a quarterly basis. Procedures should be established to reconcile solid waste billings, collections and delinquencies for each billing period and to reconcile collections to deposits. In addition, written approval should be obtained regarding new customers added and old customers leaving the system. Also, the City Council should approve of all write offs of the delinquent solid waste accounts.

Response – We will implement these recommendations to the best of our ability.

City of Kirkville

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City for both banks. However, the resolution did not document the maximum amount which may be kept on deposit in each depository.

Recommendation - The City name official depositories and the maximum amount that may be kept on deposit, as required by Chapter 12C.2 of the Code of Iowa.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

In addition, the City was unable to determine which budget was approved by the Council, whether it had been published as required per the Code of Iowa, and whether a public hearing was held prior to approval of the budget.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, procedures should be implemented to ensure compliance with the Code of Iowa in relation to budget publications and hearings.

Response – The budget will be amended in the future, if applicable. Also, procedures will be implemented to ensure the budget requirements pursuant to the Code of Iowa are met.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Kirkville

Schedule of Findings

Year ended June 30, 2004

II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Patricia Waggoner, City Clerk Owner of Waggoner Store	Supplies	\$ 191
Tim Johnson, Council Member Employee of Tri-Co.	Construction	11,186

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transactions with the City Clerk do not appear to represent conflict of interest since the total transactions were less than \$1,500. However, in accordance with this same Code section, the transaction involving the Council Member may represent a conflict of interest since the total disbursements exceeded \$1,500 during the year ended June 30, 2004.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Tim Johnson is no longer on the City Council. As a result, this should no longer appear to be a problem.

Conclusion – Response accepted.

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

A summary of all receipts, and total disbursements by fund was not published in the newspaper. The purpose of the claims as published in the newspaper was not consistently documented. Some minutes were not published within fifteen days of the meeting. All of this is required by Chapter 372.13(6) of the Code of Iowa. In addition, the Council minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

A resolution was passed, even though it was not passed by a majority vote of all of the members of the Council, as required by Chapter 380.4 of the Code of Iowa. In addition, the vote of each member was not consistently documented in the Council minutes as required by Chapter 21.3 of the Code of Iowa.

Recommendation - The City should implement procedures to ensure a summary of all receipts, total disbursements by fund, purpose of the claims, and that all Council minutes are timely published in the newspaper as required by the Code of Iowa. In addition, procedures should be implemented to ensure that all Council minutes are signed, resolutions are passed by a majority vote of all members of the Council, and the vote of each Council member is consistently documented as required by the Code of Iowa.

City of Kirkville

Schedule of Findings

Year ended June 30, 2004

Response - We will implement these recommendations to the best of our ability.

Conclusion - Response accepted.

II-H-04 Deposits and Investments – The City does not have an investment policy as required by Chapter 12B.10B of the Code of Iowa. As noted at II-A-04 above, the City did not specify the maximum which may be kept on deposit in each depository.

Recommendation – The City enter in an investment policy as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-I-04 Revenue Bonds and Notes - The City does not have any revenue bonds and notes.

II-J-04 Payroll – The compensation paid to the Mayor, City Council, and City Clerk is different than the amount that should be paid according the Code of Ordinances.

Copies of the quarterly payroll reports were not kept. The Job Service reports do not include the wages of the maintenance person. The form 941 reports sent to the IRS do not reconcile to the year end W2/W3 forms. The City Clerk does not keep a timesheet of hours worked for the City.

Recommendation – The City pay the Mayor, City Council and City Clerk pursuant to the amounts as noted in the Code of Ordinances. Copies of quarterly payroll reports should be retained, and the Job Service reports should include the wages of the maintenance person. Procedures should be implemented to ensure the 941 reports reconcile to the W2/W3 forms, and that the City Clerk maintain a timesheet documenting hours worked for the City.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.

II-K-04 City Code of Ordinances – The City code of ordinances have not been recodified since 1996.

Recommendation – Chapter 380.8(2) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – We will consider this.

Conclusion – Response accepted.

II-L-04 Property Sale – The City resolution selling a piece of property stated that the selling price would be \$200 plus costs incurred by the City. However, the buyer of the property in question only paid the City a total of \$200.

Recommendation – The City consult with legal counsel in relation to this issue.

Response – We will review this.

Conclusion – Response accepted.

City of Kirkville

Schedule of Findings

Year ended June 30, 2004

- II-M-04 Compliance Issues – The contract between the City and the garbage hauler requires the garbage hauler to file proof of insurance with the City. However, it does not appear that this has been done. The City did not file a claim for a sales tax refund from the State of Iowa for sales tax paid by the contractor in relation to street repair work performed for the City. The City did not enforce a vendor ordinance requiring payment of fees in relation to a community event held in town.
- Recommendation – The City implement procedures to ensure the garbage hauler files proof of insurance with the City, sales tax refunds are claimed from the State of Iowa on future construction projects, and that ordinances requiring payment of fees be enforced.
- Response – We will implement these to the best of our ability.
- Conclusion – Response accepted.
- II-N-04 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-O-04 Disbursements – The City did not consistently cancel paid invoices. Some invoices could not be located. The City paid \$3,590 for an accounting software package which was never used by the City.
- Recommendation – We recommend the City obtain and retain all invoices, and that all invoices be cancelled. In addition, the City should not purchase items that it will not use.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.
- II-P-04 Bank Signature Cards – The bank maintains signature cards on each bank account stating who is approved to access the account. The signature cards have not been updated to remove a former mayor.
- Recommendation – The City should update the bank signature cards to reflect current authorized personnel.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.